FDIC State Profile

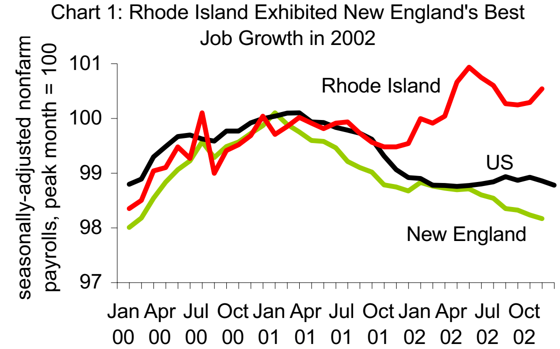
SPRING 2003

Rhode Island

The recent national recession largely bypassed the Rhode Island economy, but absent significant internal catalysts, the state's near-term economic growth will be driven by national trends.

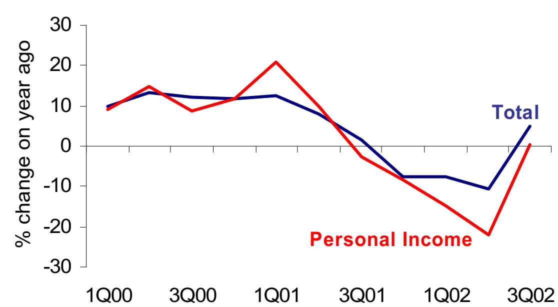
- The impact of the 2001 national recession was limited in Rhode Island. As a result, the state boasted New England's strongest year-to-date job growth through November, and the strongest per capita income growth through first half 2002 (see **Chart 1**).
- The state's manufacturing sector already had contracted significantly prior to the onset of the 2001 recession. As a result, the national recession's cyclical impact was more muted in Rhode Island than in neighboring states.
- Additionally, given Rhode Island's modest exposure, the recent slump in the IT sector should not weigh as heavily on the state's income and spending as it will in nearby Massachusetts.
- The weak stock market and related reductions in capital gains income led to unexpected declines in income tax revenue collections, which negatively affected the state's fiscal situation (see **Chart 2**).
- While the fiscal year 2004 deficit is not as large as other states, cuts in state programs and local aid may be required to balance the budget.
- Home price appreciation has continued to accelerate statewide in 2002. Throughout the late 1990s, demand for the state's housing benefited from its affordability and its commutable proximity to more vibrant labor markets in greater ***Boston*** and southwestern Connecticut (see **Chart 3**).
- Despite its relative affordability, accelerating home price appreciation in Rhode Island may be unsustainable if the national economy remains lackluster, if local population growth slows, or if price appreciation in greater Boston continues to decelerate.
- Rhode Island escaped the recession largely unscathed; however, absent renewed growth in the U.S. economy there are few internal catalysts likely to boost the state's economy going forward.

Chart 1: Rhode Island Exhibited New England's Best Job Growth in 2002



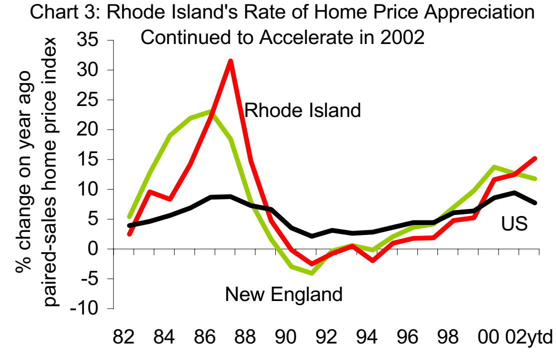
Source: BLS, SIC basis

Chart 2: State Tax Revenues Fell During the Downturn, Led By a Plunge in Personal Income Tax Revenue Collections



Source: Rockefeller Institute

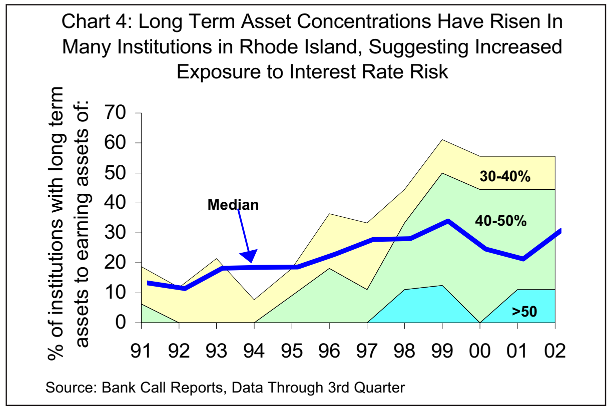
Chart 3: Rhode Island's Rate of Home Price Appreciation Continued to Accelerate in 2002



Source: OFHEO

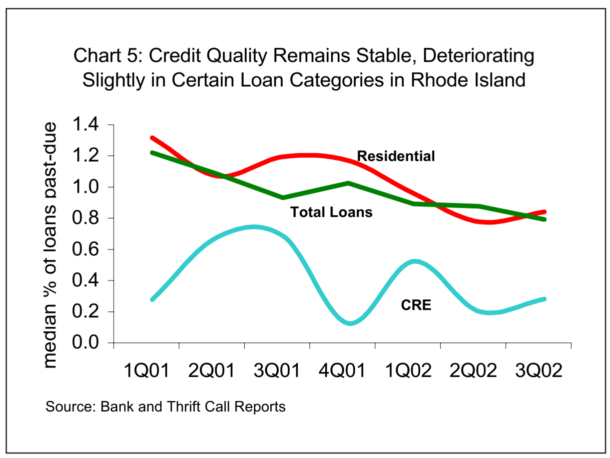
Interest Rate Risk remains a concern for institutions with increased concentrations of fixed, long-term assets, resulting from recent refinancing waves.

- With the conventional 30-year mortgage rate below 7.0 percent for the past 12 months, refinancing activity has been strong as borrowers continue to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at some institutions without matching liability extension. Median long-term assets to earning assets rose toward a ten-year high. Nearly half of Rhode Island's institutions have long-term asset concentrations greater than 40 percent. Strong long-term asset growth has been widespread in the state, with a median growth rate of 15 percent over the past year (see **Chart 4**).
- Extension of asset maturities is especially pronounced in the state, as well as New England, due to the large number of thrifts and residential lenders. Savings institutions represent half of insured institutions in Rhode Island, and residential real estate loans comprise 56 percent of the average thrift loan portfolio in the state. Net interest margin compression may occur at these institutions when short-term interest rates increase as liabilities will reprice at a faster rate than assets.



Although overall credit quality improved during the third quarter, commercial real estate loans deteriorated slightly during the third quarter and deterioration could become more pronounced with the struggling economy.

- The median past-due ratio improved during the third quarter of 2002; however, noncurrent loan levels have increased over the past few quarters. Residential and commercial real estate loan delinquencies increased during the quarter, but remain lower than one- year ago (see **Chart 5**).
- One quarter of Rhode Island's institutions report high-risk[1] loan concentrations of at least 300 percent of capital. However, the median high-risk loan concentration in the ***Providence*** MSA remains low, compared to other metro areas in New England, and exposures have fallen throughout the state.
- In contrast, residential real estate concentrations have been increasing over the past two years. The median has increased to 265 percent, up from 160 percent two-years earlier. Additionally, over one-third of institutions now report residential concentrations greater than 300 percent of capital. Should household financial conditions worsen, residential past-due levels may increase further.



[1] High risk is defined as Commercial, Construction, Commercial Real Estate and Multifamily loans.

Rhode Island at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	14	13	13	12	13
Total Assets (in thousands)	196,734,251	208,859,988	179,227,835	96,265,419	86,590,886
New Institutions (# < 3 years)	3	1	2	1	2
New Institutions (# < 9 years)	5	3	3	2	2

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.83	8.30	7.86	7.79	7.71

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	0.77%	0.98%	1.18%	1.34%	1.70%
Past-Due and Nonaccrual ≥ 5%	0	1	2	1	1
ALLL/Total Loans (median %)	1.15%	1.35%	1.31%	1.52%	1.52%
ALLL/Noncurrent Loans (median multiple)	3.21	2.56	2.65	2.52	2.31
Net Loan Losses/Loans (aggregate)	1.94%	1.06%	1.13%	1.30%	1.13%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	1	0	0	0	0
Percent Unprofitable	7.14%	0.00%	0.00%	0.00%	0.00%
Return on Assets (median %)	1.11	0.90	1.18	1.20	1.16
25th Percentile	0.68	0.73	0.84	0.81	0.85
Net Interest Margin (median %)	3.71%	3.89%	4.15%	4.05%	4.32%
Yield on Earning Assets (median)	6.37%	7.72%	7.86%	7.46%	8.20%
Cost of Funding Earning Assets (median)	2.56%	3.95%	4.10%	3.57%	3.99%
Provisions to Avg. Assets (median)	0.13%	0.06%	0.14%	0.17%	0.20%
Noninterest Income to Avg. Assets (median)	1.50%	1.13%	1.27%	1.11%	1.23%
Overhead to Avg. Assets (median)	3.44%	3.32%	3.39%	3.29%	3.34%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	89.08%	91.02%	86.24%	89.34%	86.59%
Loans to Assets (median %)	64.84%	65.88%	66.39%	67.73%	71.50%
Brokered Deposits (# of institutions)	3	3	3	3	2
Bro. Deps./Assets (median for above inst.)	0.22%	0.63%	0.81%	0.91%	2.27%
Noncore Funding to Assets (median)	21.03%	25.85%	28.27%	25.09%	18.60%
Core Funding to Assets (median)	61.01%	62.39%	61.18%	64.18%	67.88%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	3	4	4	4	5
National	4	3	3	2	2
State Member	0	0	0	0	0
S&L	2	1	1	1	1
Savings Bank	3	3	3	3	3
Mutually Insured	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Providence-Fall River-Warwick RI-MA	9	193,993,454	64.29%	98.61%
No MSA	3	990,643	21.43%	0.50%
New London-Norwich CT-RI	2	1,750,154	14.29%	0.89%